

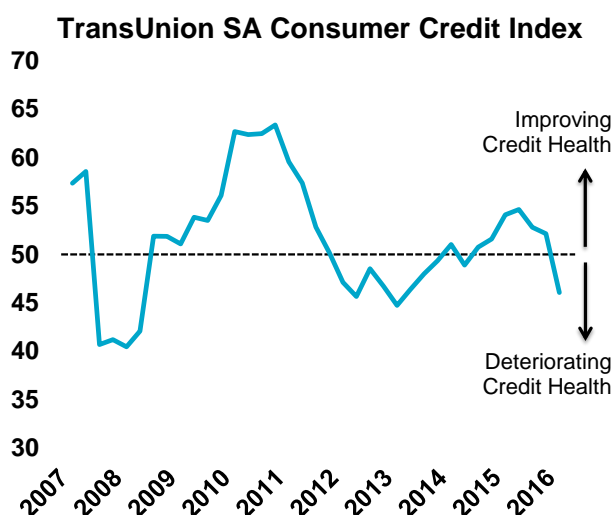
Consumer credit health deteriorated in the 1st quarter

Executive Summary

SA Consumer Credit Index: Key Findings

	Q1 2016	Q4 2015	Q1 2015
Index: 50.0 = breakeven	46.1	52.1	54.1

- The **TransUnion SA Consumer Credit Index (CCI)** declined sharply to **46.1** in the 1st quarter 2016 from **52.1** in the previous quarter. The index measures consumer credit health where 50.0 is the break-even level of improvement and deterioration.
- The CCI fell to its lowest level in three years, reflecting the adverse impact of rising interest rates and higher consumer price inflation feeding into worse loan repayment behaviour.
- **New accounts in default** (3 months in arrears) climbed 1.8% y/y, compared to a drop of 5.3% in the 4th quarter. **Distressed borrowing** increased marginally by 0.7% y/y, compared with 0.1% the previous quarter. Overall credit behaviour worsened although the rate of deterioration was not particularly alarming. That said, the trend appears to be negative.
- **Household cash flow** tightened further in the 1st quarter, on the back of rising non-discretionary price inflation, a product primarily of sharp currency weakness.
- Household **debt service costs** accelerated sharply in the 1st quarter as the South African Reserve Bank raised the repo rate by a hefty 75 basis points during the quarter.



Q1 2016 CCI: Key Facts and Figures

- No. of consumer accounts measured: 56.9 million
- No. of accounts 3 months in arrears: 1.0 million
- No. of accounts 1 month in arrears: 3.8 million
- Value of revolving credit measured: R142 billion
- Estimated Q1 2016 non-discretionary consumer price inflation (NDCPI): 6.7% y/y (Q4: 4.6% y/y)
- Estimated Q1 2016 NDCPI-adjusted household disposable income growth: -0.9% y/y (Q4: 0.0% y/y)
- Estimated aggregate, annual household disposable income: R1.92 trillion
- Estimated national household bank debt as a percentage of disposable income: 77.8%
- Prime overdraft rate at end Q1 2016: 10.50%
- TransUnion CCI series high: 63.4 (Q4 2010)
- TransUnion CCI series low: 40.5 (Q1 2008)

Data Weighting in the TransUnion CCI

TransUnion Defaults & Distressed Borrowing	Household Cashflow	Debt Servicing Costs
50%	35%	15%

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Unpacking the 1st quarter 2016 SA Consumer Credit Index

Household credit behaviour

1. Credit defaults

The rate of accounts lapsing 3-month in arrears as a proportion of total accounts climbed 1.8% y/y in the 1st quarter. While not yet a big problem and coming off a relatively low base, the rate of change has shifted positive and will be of some concern amid a worsening macroeconomic environment. It now appears as though default rates have bottomed out and are back on a rising trend. How bad this default cycle gets depends on the how long the tough macroeconomic conditions persist in coming quarters.

2. Distressed borrowing

Revolving credit (credit cards and store cards) used as a percentage of one's credit limit (distressed borrowing indicator) once again increased only marginally in the 1st quarter, rising 0.7% y/y. Nevertheless, off relatively high base the data shows households remain locked into high revolving credit utilisation. The data masks disparity between credit card and store card usage, where credit card utilisation is up 2.6% y/y and store card utilisation is down 2.1% y/y. This may reflect a degree of distress as people shift from specific purpose store cards to multi-purpose credit cards to supplement monthly budgets.

Household cash flow

Rising inflation rates are eating into household income streams. This caused the household cash flow measure to fall to its lowest level since 2010. Growth fell to just 0.5% y/y with the potential to trend negatively in the 2nd quarter. With labour market prospects turning bleak, household cash flow is likely to remain under pressure in the coming quarters.

Household debt serviceability

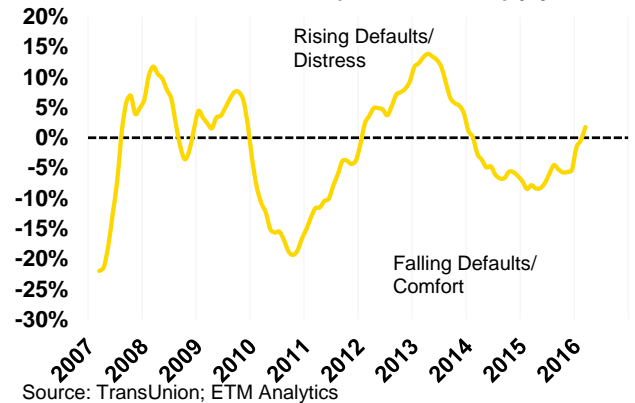
The South Africa Reserve Bank raised the benchmark repo rate considerably in the 1st quarter from 6.25% to 7.00% in reaction to rand weakness and rising inflation risks. Household debt service costs escalated fairly sharply as a result, making it the second largest contributor to the fall in the overall CCI.

Further Insight: Signs of increasing retail sector stress

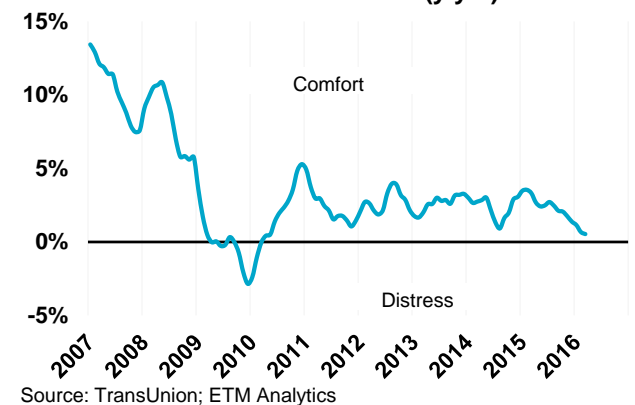
In the previous CCI report released in February, we highlighted that rand depreciation tends to weigh on retail sales volumes as cost pressures escalate. Also, we argued that South Africa's worst drought in decades would result in higher food prices in coming months which would put further pressure on household budgets. Reserve Bank interest rate hikes and a weak job market are adding to the retail sector's headaches.

TransUnion data on new account enquiries and new accounts opened in the retail sector adds confirmation to our prior analysis. The data show a marked slowdown in willingness to extend retail credit and a deterioration in creditworthiness. The Affordability regulations implemented in the 4th quarter 2015, introduced stricter credit granting criteria which credit providers must adhere to prior to credit being extended. This resulted in more cumbersome credit granting processes (due to mandatory documentation required to access that the consumer has the financial means and prospects to pay) and an increased decline rate. In the adjacent chart, total new retail accounts opened has fallen from 350,000 in July 2013 to around 250,000 now, on a smoothed basis. Conversion rates (the rate at which new account enquiries with the credit bureau lead to new accounts opened) picked up to 35% by mid-2015 but has since slowed to around 30% on a smoothed basis along with the deceleration in new accounts. The fact that new account activity is decelerating faster than conversion rates implies that credit enquiries are also falling. Given that revolving store card utilisation is falling, the drop in enquiries is probably driven by a combination of lower consumer store credit demand and tightening credit standards. Similarly, the fall in conversion rates implies both tighter standards and deteriorating credit health. The trends suggest retail credit markets are bracing for tougher conditions.

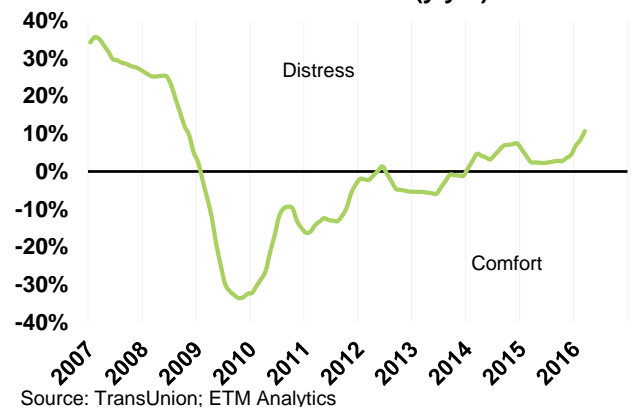
Accounts in Default (3m in arrears) y/y%



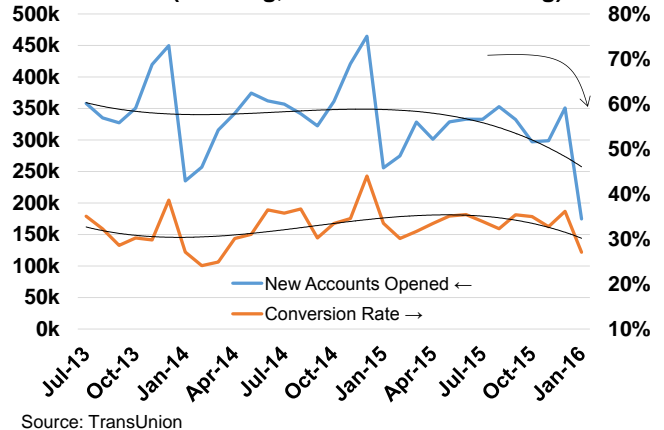
Household Cashflow (y/y%)



Debt Service Costs (y/y%)



Retail (Clothing, installment & revolving)



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The TransUnion SA Consumer Credit Index: key information

What is the Consumer Credit Index?

The TransUnion SA Consumer Credit index is an indicator of consumer credit health compiled by **TransUnion, a global leader in risk and information solutions** with technical support from **ETM Analytics**, and released quarterly. It measures the aggregate consumer loan repayment record, tracks the use of revolving consumer credit facilities as an indicator of distressed borrowing, estimates household cash flow as a means of determining financial pressure/relief, and quantifies the relative cost of servicing outstanding debt. These aspects are then combined into a single indicator of credit health.

The indicator combines actual consumer borrowing and repayment behaviour with key macroeconomic variables impacting on household finances. The methodological approach is to capture aggregate data about real world action rather than collate survey responses about consumer perceptions or expectations.

A 'diffusion' index

The index is constructed to resemble a diffusion index whereby levels above a certain threshold (in this case 50.0) indicate positive trends or improving outcomes while levels below the threshold indicate the opposite. The index is designed to fluctuate within the set logical minimum and maximum of 0.0 to 100.0, with 50.0 as the so-called 'breakeven' point.

Levels above 50.0 are associated with higher rates of loan repayment, lower credit card utilisation, improving household cash flow, lower interest rates, and credit deleveraging. **Levels below 50.0** are associated with the opposite. Levels between 50-60/40-50 indicate **moderate** improvement/deterioration in credit health. 60-70/30-40 indicates **strong** improvement/deterioration. 70-90/10-30 indicates **extreme/unusual** improvement/deterioration. 90-100/0-10 indicates highly improbable rates of credit health improvement or deterioration associated with **outlying, non-normal** conditions such as hyperinflation or war.

The data

The Index has three main data components:

- **TransUnion Credit Bureau data***
- **Official public domain statistics**
- **Proprietary analytics of public domain statistics**

TransUnion Credit Bureau: consumer credit card utilisation**;
number of consumer credit accounts in arrears (TransUnion).

Official public domain statistics: prime interest rate;
household debt to disposable income ratio (South African Reserve Bank).

Proprietary analytics of public domain statistics: non-discretionary CPI derived from the official Consumer Price Index, 'Alternative Money Supply' derived from official money supply and credit data (ETM Analytics; SARB, Stats SA)

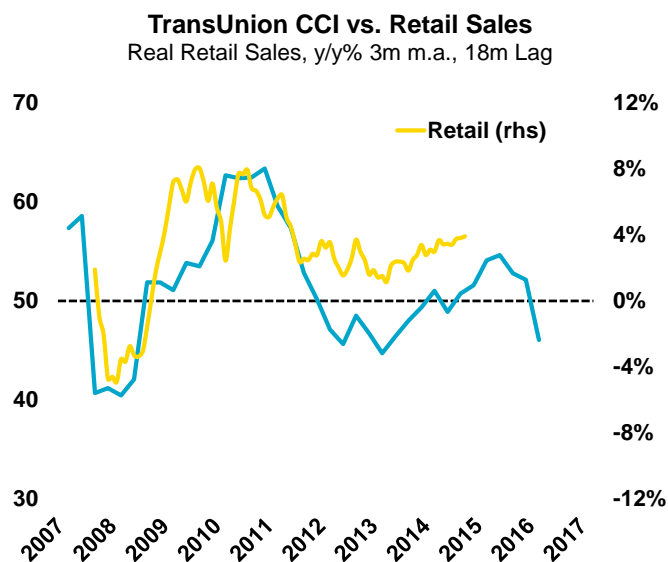
The data contribute to the Index in the following proportion:

Data Weighting in the TransUnion CCI

TransUnion Data	Proprietary Analytics	Official Public Data
50%	35%	15%

Real world application

The index may be considered a credible indicator of macroeconomic events and growth cycles for sectors affected by consumer finances and credit behaviour. Below the TransUnion SA CCI is compared to year-on-year retail sales volumes, lagged 18 months. The relationship suggests that the retail sales volume growth is at risk of slowing sharply in the coming 12 to 18 months.



Source: TransUnion; Stats SA; ETM Analytics

The index may also inform both corporate strategy with regard to credit extension, pricing and provisioning, as well as public policy with regard to monetary and interest rate policy.

The sub-components of the index may also provide valuable business insights in their own right, which can be used to evaluate consumer behaviour, financial distress, household cash flow, and household budget dynamics.

For more information on how to gain access to these sub-components see the contact details below.

Contact

TransUnion SA Consumer Credit Index queries can be sent to: Tanya Schnehage | mcmailbox@transunion.co.za or on: **+2711 214 6000**

You can view the index online at transunioninsights.co.za/CCI

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* Incorporating SACCCA data

**As supplied by SACCCA members

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